

**CITY OF KINGSTON LOCAL  
DEVELOPMENT CORPORATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2012**

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# KIMBALL & O'BRIEN PC

## Certified Public Accountants

### INDEPENDENT AUDITORS' REPORT

Board of Directors  
City of Kingston Local Development Corporation  
Kingston, New York

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Kingston Local Development Corporation (a nonprofit organization which is a component unit of the City of Kingston) which comprise the statement of net assets as of December 31, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kingston Local Development Corporation as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013 on our consideration of the City of Kingston Local Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Kingston Local Development Corporation's internal control over financial reporting and compliance.

KIMBALL & O'BRIEN PC

By 

March 28, 2013

# KLDC

## KINGSTON LOCAL DEVELOPMENT CORPORATION

on. Shayne R. Gallo, President ~ Jennifer J. Fuentes, Executive Director ~ Brenna L. Robinson, Portfolio Manager

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the **CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**'s financial performance provides an overview of the Organization's financial activities for the fiscal year ended December 31, 2012. Please read it in conjunction with the Organization's financial statements that follow. The **CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION** (KLDC) is a component unit of the City of Kingston; therefore, this discussion and analysis includes only the business-type activities of the KLDC. The KLDC is required to present its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

### FINANCIAL HIGHLIGHTS

As a result of this year's operations, the Organization's net assets increased \$48,923 in 2012. Operating revenues increased to \$334,741 while operating expenses decreased to \$294,932 for the year. Non operating revenues were \$15,933 for the year compared to \$11,817 in the prior year. Non operating expenses of \$6,819 were up from \$5,480 in 2011.

### USING THIS ANNUAL REPORT

The activities of the Organization are the administration of certain loan programs, economic development technical assistance and training, operation of the Business Park for the City of Kingston, and infrastructure improvements aimed at fostering new job creation which are business-type activities. Since the Organization conducts only business-type activities, this annual report consists of only the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows which provide information about the activities of the Organization only.

One of the most important questions asked about the Organization's finances is whether investments made serve to further the nonprofit economic development mission of the organization. The statements report information about the Organization's activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statements report the Organization's net assets and changes in them. You can think of the Organization's net assets - the difference between assets and liabilities - as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non financial factors, however, such as changes in the condition of the Organization's Business Park to assess the overall health of the Organization.

## CONDENSED COMPARATIVE FINANCIAL STATEMENTS AND ANALYSIS

The Organization's net assets changed from a year ago, increasing from \$7,585,826 to \$7,634,749. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2).

**Table 1**  
**Net Assets**

	<u>2012</u>	<u>2011</u>
Current and other assets	\$4,927,105	\$5,053,474
Capital assets	<u>5,010,880</u>	<u>5,133,416</u>
Total assets	<u>9,937,985</u>	<u>10,186,890</u>
Long-term debt outstanding	2,272,290	2,517,290
Other liabilities	<u>30,946</u>	<u>83,774</u>
Total liabilities	<u>2,303,236</u>	<u>2,601,064</u>
Net assets:		
Invested in capital assets, net of debt	4,823,352	4,945,886
Restricted	57,047	58,132
Unrestricted	<u>2,754,350</u>	<u>2,581,808</u>
Total net assets	<u>\$7,634,749</u>	<u>\$7,585,826</u>

**Table 2**  
**Changes in Net Assets**

	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Operating Revenues:		
Revenue from lending activities	\$103,255	\$113,132
Business Park income	151,000	156,000
Miscellaneous Revenue	486	1,390
CDBG Grant	80,000	0
Nonoperating Revenues:		
Interest and investment revenue	8,077	5,656
Training Sessions	1,406	0
Project Donations	<u>6,450</u>	<u>6,161</u>
Total revenues	<u>350,674</u>	<u>282,339</u>
<b>Expenses</b>		
Lending activities	161,655	201,486
Business Park	133,277	136,917
Nonoperating expenses		
Interest expense	0	2,603
Project Administration Expenses	<u>6,819</u>	<u>2,877</u>
Total expenses	<u>301,751</u>	<u>343,883</u>
Increase (Decrease) in net assets	<u>\$48,923</u>	<u>(\$61,544)</u>

The Organization's current revenues increased \$68,335 from the prior year. The major reason for the increase in revenue was due to a Community Development Block Grant received in the amount of \$80,000 for economic development assistance activities.

The Organization's expenses decreased \$42,132 in 2012. This decrease reflects a continued lag in lending activities, a decrease in interest expenses paid to HUD, and less funding allocated for Business Park maintenance. Approximately \$27,000 of this decrease was attributed to the refinancing of Section 108 Loans at a lower interest rate in 2011 and \$15,000 less spent on Business Park repairs.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

Table 3 lists the amounts that have been generally invested in the Kingston Business Park. These amounts represent a net decrease of \$122,536 or a decrease of 2.39%.

**Table 3**  
**Capital Assets at Year-end**  
**(Net of depreciation)**

	<u>2012</u>	<u>2011</u>
Land	\$2,784,953	\$2,784,953
Building & Acquisition costs	1,861,309	1,854,782
Improvements	1,595,934	1,595,934
Construction in Progress	10,373	10,373
Equipment	<u>32,599</u>	<u>32,599</u>
Subtotal	6,285,168	6,278,641
Accumulated depreciation	<u>(1,274,288)</u>	<u>(1,145,225)</u>
Totals	<u>\$5,010,880</u>	<u>\$5,133,416</u>

KLDC completed construction of a 10,000 square foot building for Armor Dynamics, Inc in July of 2008 for a total cost of \$1,854,782. KLDC received a grant in the amount of \$1,000,000.00 from the NYS Dormitory to help with the construction. Armor Dynamics paid rent of \$5,000 per month for the first 2 years. The rent increased to \$6,581 in August of 2010 for the next 8 years. The company will have the option to purchase the building for the total cost at the end of the first five (5) years.

In early 2013 the KLDC took possession of the former Bank of America Building on Broadway. This parcel was appraised at \$400,000 and was a donated by the Bank of America for the proposed Midtown Revitalization Strategy Area that includes relocating the City's Police Station to the more central Midtown location. Preliminary rehabilitation figures estimate the conversion of the BOA property to a police station to be \$1,559,000. Acquisition expenses incurred for environmental and architectural review of the parcel, totaling \$6527, were incurred during 2012.

## Debt

Table 4 presents detail of debt. The outstanding debt decreased by \$245,000, or 10% during the year due to the scheduled repayment of 108 notes to HUD.

**Table 4**  
**Outstanding Debt at Year-end**

	<u>2012</u>	<u>2011</u>
DOT(Kingston Business Park)	157,290	157,290
HUD Loans	<u>2,115,000</u>	<u>2,360,000</u>
Total Loans	<u>\$2,272,290</u>	<u>\$2,517,290</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Since the Organization is only engaged in business-type activities, it does not have a legally adopted budget which carries the force of law. However, the Organization's appointed board has prepared a budget to be used as a planning tool. No significant changes from the current year were anticipated in the budget.

## CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Organization's finances and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the organization at Kingston Local Development Corporation, 420 Broadway, Kingston, NY 12401 or call (845) 334.3924.



**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**  
**(A COMPONENT UNIT OF THE CITY OF KINGSTON)**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2012**

	<u>2012</u>
<b>ASSETS:</b>	
Current assets:	
Cash	\$ 1,119,359
Restricted cash	1,140,603
Notes receivable - current portion	379,332
Grants receivable	46,157
Other receivables	95,642
Prepaid expenses	<u>4,506</u>
Total current assets	<u>2,785,599</u>
Noncurrent assets:	
Notes receivable, net	2,141,506
Capital Assets:	
Land	2,784,953
Building	1,854,782
Construction in progress	10,373
Improvements	1,595,934
Equipment	32,599
Acquisition costs	6,527
Less: accumulated depreciation	<u>(1,274,288)</u>
Total noncurrent assets	<u>7,152,386</u>
Total assets	<u>9,937,985</u>
<b>LIABILITIES:</b>	
Current liabilities:	
Accounts payable	22,309
Accrued liabilities	6,491
Due to other governments	2,146
Bonds and notes payable - current portion	<u>245,000</u>
Total current liabilities	<u>275,946</u>
Noncurrent liabilities:	
Bonds payable	440,000
Notes payable	<u>1,587,290</u>
Total noncurrent liabilities	<u>2,027,290</u>
Total liabilities	<u>2,303,236</u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	4,823,352
Restricted net assets	57,047
Unrestricted net assets	<u>2,754,350</u>
Total net assets	<u>\$ 7,634,749</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**  
**(A COMPONENT UNIT OF THE CITY OF KINGSTON)**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2012**

	<u>2012</u>
<b>OPERATING REVENUES</b>	
Revenue from lending activities	\$ 103,255
Rental income	151,000
Grant	80,000
Miscellaneous revenue	<u>486</u>
Total operating revenues	<u>334,741</u>
<b>OPERATING EXPENSES</b>	
Bad debt expense	11,499
Contractual services	42,907
Depreciation	129,061
Forgiveness of debt	2,533
Insurance expense	7,903
Interest expense - lending activities	29,955
Other supplies and expenses	7,940
Repairs and maintenance	3,877
Personal services and benefits	55,041
Utilities	<u>4,216</u>
Total operating expenses	<u>294,932</u>
Operating income	<u>39,809</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	8,077
Project donations	6,450
Project administration expenses	(6,819)
Training sessions (net of \$719 expense)	<u>1,406</u>
Total nonoperating revenue and expenses	<u>9,114</u>
Change in net assets	48,923
Net assets - beginning of year	<u>7,585,826</u>
Net assets - end of year	<u><u>\$ 7,634,749</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF KINGSTON LOCAL DEVELOPMENT CORP**  
**(A COMPONENT UNIT OF THE CITY OF KINGSTON)**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from lending activities	\$ 496,943
Receipts from rental activities	124,667
Receipts from miscellaneous revenues	486
Loans granted	(168,100)
Payment of operating expenses	(125,423)
Operating grants received	80,000
Net cash provided by operating activities	<u>408,573</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Contributions received for projects	6,450
Project administration expenses	(6,819)
Training session income	2,125
Traning session expenses	(719)
Interest paid on noncapital debt	(24,913)
Principal paid on noncapital debt	(245,000)
Net cash used by noncapital activities	<u>(268,876)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Acquisition of capital assets	<u>(6,527)</u>
Net cash used by capital financing activities	<u>(6,527)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest on cash investments	<u>8,077</u>
Net cash provided by investing activities	<u>8,077</u>

**NET INCREASE IN CASH** 141,247

**CASH - BEGINNING OF YEAR** 2,118,715

**CASH - END OF YEAR** \$ 2,259,962

**CASH SUMMARY:**

Cash	\$ 1,119,359
Restricted cash	<u>1,140,603</u>
Total	<u>\$ 2,259,962</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF KINGSTON LOCAL DEVELOPMENT CORP**  
**(A COMPONENT UNIT OF THE CITY OF KINGSTON)**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2012**

**Reconciliation of operating income to net cash**

**provided by operating activities:**

Operating income	\$ 39,809
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	129,061
Bad debt expense	11,499
Forgiveness of debt	2,533
Interest expense included in noncapital financing for loans granted	29,955
Changes in assets and liabilities:	
Notes and other receivables, net	279,383
Deposits	(58,859)
Accounts payable and accrued liabilities	4,885
Other receivables	(26,333)
Due to other governments	1,146
Prepaid expenses	<u>(4,506)</u>
Net cash provided by operating activities	<u>\$ 408,573</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES**

The City of Kingston Local Development Corporation (KLDC) was organized in 1994 under Not-For-Profit Corporation Law and is operated exclusively for the charitable or public purposes of relieving and reducing unemployment, promoting and providing for additional and maximum employment, bettering and maintaining job opportunities, promoting instruction or training of individuals to improve or develop their capabilities for such jobs, aiding in attracting new business and industry, or by encouraging the development of, or retention of, business and industry within the City of Kingston.

The Organization is exempt from Federal income tax as an Organization described in Sec. 501(c)(3) of the Internal Revenue Code.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Method of Accounting and Financial Reporting

For purposes of applying accounting and financial reporting standards, KLDC is considered a governmental entity and a component unit of the City of Kingston since all the board members are appointed by the Mayor.

As such, KLDC has implemented the requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

- The financial statements are prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.
- The Management Discussion and Analysis (MD&A) section is management's analysis of the Organization's overall financial position and results of operations.
- The financial statements are prepared using the full accrual basis for all activities. Operating revenues and expenses result from providing lending services and also operation of a business park.

Loans Receivable

Loans receivable are carried at their estimated collectible amounts (net of allowance for losses). Interest income on loans is recognized using the accrual method. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral, and current economic conditions. Loans receivable are placed on non-accrual status when they become over 1 year past due. Upon suspension of the accrual of interest, interest income is subsequently recognized to the extent cash payments are received. Accrual of interest is resumed when loans are removed from non-accrual status. Loans receivable are charged against the allowance account when they are deemed uncollectible. As of December 31, 2012 the allowance for doubtful accounts was \$980,999.

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Capital Assets

Capital assets are stated at cost including interest capitalized during the construction period on the Business Park. The improvements are being depreciated using the straight-line method over their estimated useful lives of 15 to 20 years. See Note 6 for additional information on the Park.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are external restrictions by creditors, grantors, laws or regulations of other governments. See Note 9 for additional details on restricted net assets.

**NOTE 3 - CASH AND COLLATERAL**

KLDC maintains cash balances at several financial institutions located in Kingston. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 each for interest and non-interest bearing accounts. Deposits at year-end were partially covered by federal depository insurance or by collateral held by a custodial bank in KLDC's name. The deposits consist of:

<u>Bank</u>	<u>Bank Balance</u>	<u>Collateralized</u>		
		<u>Insured</u> <u>(FDIC)</u>	<u>Custodial</u> <u>Bank</u>	<u>No Collateral</u>
Catskill Hudson Bank	\$ 758,351	250,000	508,351	-
M&T Bank	768,898	409,367	359,531	-
JP Morgan Chase	530,690	250,000	280,690	-
Ulster Savings Bank	192,670	192,670	-	-
Rondout Savings Bank	24,620	24,620	-	-
Senate Securities	25	25	-	-

For purposes of reporting cash flow, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity.

**NOTE 4 - RESTRICTED CASH**

KLDC was required to set aside a portion of the loan proceeds drawn down from HUD for one borrower under the section 108 loan guarantee program. These funds could only be used if the borrower was unable to repay their obligation. The funds were transferred to a KLDC account in 2012 due to nonpayment by the borrower.

Payments received on 108 loans are restricted to paying KLDC's debt service on its outstanding 108 loans from HUD. In addition, 108 funds have been drawn down, but not lent out to borrowers. It is KLDC's intention to return these funds to HUD in the near future.

See auditors' report.

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 5 - LOAN PROGRAMS**

The Organization grants loans to businesses through the Community Development Revolving Loan Fund (CDRLF), the Kingston Revolving Loan Fund (KRLF), the Section 108 Loan Guarantee and the related Economic Development Initiative (EDI), the Kingston-Newburgh Enterprise Community (KNEC), the Canal Corridor Initiative (CCI) and the Micro Enterprise Program (Micro). The primary objective of all loan programs is to enhance job retention and creation in the City of Kingston. Interest rates vary but are always below the prime lending rate when issued. In addition, KLDC grants interest-free loans for façade improvements which are forgiven over a 10-year period. Loans are generally secured by liens on real property and security interests in other business assets. Activity is summarized as follows:

	Balance 12/31/11	Loans Granted	Loan Payments	Balance 12/31/12
KRLF	\$ 422,870	-	51,158	\$ 371,712
CDRLF	832,509	165,000	63,134	934,375
Sec 108	2,187,109	-	219,153	1,967,956
EDI	98,125	-	7,500	90,625
KNEC	135,683	-	17,253	118,430
Micro	5,908	-	-	5,908
Noah Hotel	140,000	-	105,000	35,000
Façade Improvement	7,500	3,100	2,533	8,067
Total	<u>3,829,704</u>	<u>168,100</u>	<u>465,731</u>	<u>3,532,073</u>
Allowance for estimated losses	(969,500)			(980,999)
Prepaid loans	(10,675)			-
Interfund loan to KBP (Note 8)	(30,236)			(30,236)
Net	<u>\$ 2,819,293</u>			<u>\$ 2,520,838</u>
Current portion	\$ 883,625			\$ 379,332
Non-current portion, net	<u>1,935,668</u>			<u>2,141,506</u>
Net	<u>\$ 2,819,293</u>			<u>\$ 2,520,838</u>

A total of \$982,105 in loans is considered to be in nonaccrual status as of December 31, 2012.

**NOTE 6 - KINGSTON BUSINESS PARK**

KLDC owns and operates the Kingston Business Park (KBP). Phase I of the Park was substantially completed during 1997. The first tenant, Huck International, moved into its facility in May 1997. The lease is for 20 years with additional options to extend for a total of 99 years.

A second tenant, Armor Dynamics (AD), was added to the site in 2007. KLDC negotiated a lease agreement with AD for a period of 20 years with an option to purchase prior to the end of the lease. AD may also extend the lease for 7 additional periods of 10 years plus 1 additional term of 9 years. After the third full year of the lease, AD may terminate the lease by giving KLDC 6 months written notice.

See auditors' report.

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 6 - KINGSTON BUSINESS PARK (CONTINUED)**

Minimum future annual lease payments are as follows:

2013-2018	151,000
2019-2024	105,000
2025-2028	120,000

2012 activity related to Kingston Business Park capital assets, consisted of the following:

	Balance 12/31/11	Additions	Disposals/ Transfers	Balance 12/31/12
Land	\$ 2,784,953	-	-	\$ 2,784,953
Construction in progress	10,373	-	-	10,373
Depreciated Assets:				
Improvements	1,595,934	-	-	1,595,934
Buildings	1,854,782		-	1,854,782
Total capital assets	6,246,042	-	-	6,246,042
Less accumulated depreciation:				
Improvements	976,984	80,289		1,057,273
Buildings	142,974	46,370		189,344
Total accumulated depreciation	1,119,958	126,659	-	1,246,617
Net capital assets	\$ 5,126,084	(126,659)	-	\$ 4,999,425

Other capital assets include equipment with a cost of \$32,599 and accumulated depreciation of \$27,670. In addition KLDC started the process of acquiring a building from the Bank of America as described in Note 11. Preliminary acquisition costs in the amount of \$6,527 were incurred in 2012.

**NOTE 7 - NOTES PAYABLE**

KLDC previously entered into an agreement with the US Department of Housing and Urban Development (HUD) for loan guarantee assistance totaling \$3,420,000 under Section 108. After loans to local businesses are approved by KLDC, funds are drawn down against this authorization. Permanent financing was received in October 1997, April 1999 and August 2001 when trust certificates guaranteed by HUD were sold in a public offering. All notes were subsequently refinanced to take advantage of lower interest rates.

Principal on the notes is due in varying amounts through August 2017. The interest rates vary between .29 and 5 percent depending on when the notes were refinanced. \$145,000 was paid on these loans during 2012 and a total of \$585,000 remained outstanding as of December 31, 2012. These loans are secured by Section 108 income and CDBG funds.



**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 7 – NOTES PAYABLE (CONTINUED)**

During 2005, KLDC drew down an additional \$5,359,000 under the Section 108 loan guarantee program. The first principal payment on this loan was paid in August 2008 with varying amounts due through 2025. Interest is payable based on the three-month London Interbank Offered (LIBO) rate plus 200 basis points and was .51% at December 31, 2012. \$100,000 was paid on this loan during 2012 with a total of \$1,530,000 outstanding as of December 31, 2012. KLDC is in talks with HUD to pay off the portion of the loan that has not been loaned out to borrowers and also to obtain permanent financing on the remaining balance.

KLDC has drawn down \$157,290 from DOT as part of the financing of Phase 1A of the Business Park. The loan is interest-free and will be repaid in varying amounts over 5 years, beginning in 2014.

Long-term debt is payable as follows. Interest for interim 108 loans is calculated using current rates.

	<u>Principal</u>	<u>Interest</u>
2013	\$ 245,000	18,937
2014	255,733	15,307
2015	506,458	11,432
2016	216,458	7,195
2017	201,458	5,650
2018-2022	547,183	15,240
2023-2025	300,000	3,048
Total Long-term Debt	<u>\$ 2,272,290</u>	<u>76,809</u>

**NOTE 8 - INTRAFUND BORROWING**

As of December 31, 2007 the Kingston Business Park (KBP) had borrowed \$412,000 from the EDI grant, \$231,709 from the KRLF and \$29,000 from KNEC. There were no repayments made through 2012. These loans are for construction costs and are non-interest bearing. They will be repaid after other outside loans have been repaid.

In addition, the KBP borrowed \$100,000 from the Section 108 loan program at an interest rate of 6.8117% to be repaid over 20 years in varying monthly installments with the final balance due August 2015. The balance due was \$30,236 at December 31, 2012.

**NOTE 9 - RESTRICTED NET ASSETS**

Restricted net assets are used before unrestricted and are to be used for the following projects:

Donations for City Hall Improvements	\$ 5,835
Donations for Lighthouse	51,212
	<u>\$ 57,047</u>

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 10 - TRANSACTIONS WITH CITY OF KINGSTON**

The Organization's staff are actually employees of the City of Kingston's Community Development office (CD). All KLDC activities are conducted out of the CD office. A portion of the staff's salary is allocated by the City to KLDC based on estimated time spent on KLDC activities. However, a review of overhead expenses has not been undertaken to determine the portion that should be allocated to KLDC.

**NOTE 11 – SUBSEQUENT EVENTS**

In January 2013, the Bank of America donated a building to KLDC which was valued at \$400,000 based on an appraisal. The intention is to use the building for a new police station after financing is obtained for the needed renovations. KLDC estimates total renovation costs to be \$1,559,000.

The Organization has evaluated subsequent events through March 28, 2013, the date which the financial statements were available to be issued.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
City of Kingston Local Development Corporation  
Kingston, New York

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Kingston Local Development Corporation (a nonprofit organization) as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Kingston Local Development Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kingston Local Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kingston Local Development Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as 2012-1, that we consider to be a significant deficiency.

To the Board of Directors  
City of Kingston Local Development Corporation  
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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Kingston Local Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2012-2.

### **City of Kingston Local Development Corporation's Response to Findings**

The City of Kingston Local Development Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

This report is intended solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KIMBALL & O'BRIEN PC

By  \_\_\_\_\_

March 28, 2013

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2012**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

	<u>Response</u>
<b>Financial Statements</b>	
Type of auditors’ report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not material weaknesses?	Yes
Noncompliance material to the financial statements noted?	No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

2012-1: REPORTING

*Criteria* –Management is responsible for establishing and maintaining internal controls over financial reporting.

*Condition* – Bank reconciliations were not reviewed by management.

*Effect* – There was no effect on the financial statements due to the lack of oversight of the bank reconciliation process; however, it is a very significant internal control procedure. We did propose several significant (but not material) adjustments to the City of Kingston Local Development Corporation’s financial records in order for financial position and results of operations to be presented in conformity with generally accepted accounting principles; however, none of these related to cash.

*Cause* – The entire management and staffing for KLDC changed during 2012. The new bookkeeper for the KLDC assumed the responsibilities in mid-year. In addition, she received very little guidance from the prior individual regarding the background on various accounts and procedures. The new director and the bookkeeper worked to reduce the number of bank accounts so that they are more manageable. In addition, the board became a lot more active in the oversight of the organization and monthly financial reporting was implemented. However, the review of bank reconciliations was one procedure that was overlooked.

*Recommendation* –Even though there was significant improvement from prior years in the proper recording of financial activity, there is still work to be done. Management should continue to develop and implement policies and procedures to ensure proper oversight of the entity’s system for financial reporting including the review of bank reconciliations.

*Management’s Response* –A new President and executive director will review all policies and procedures regarding oversight of financial reporting and work with the Board of Directors to implement changes to help improve the internal controls over financial reporting.

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2012**

**2012-2: COMPLIANCE**

*Criteria* – Per the Public Authority Accountability Act of 2005, Kingston Local Development Corporation (KLDC) is considered a “local authority” and must comply with the requirements of this act.

*Condition* – The annual report submitted to the Authorities Budget Office (ABO) for the year ended December 31, 2011 omitted an appropriate response to a few required areas including: a) Outstanding Debt, b) Real Property, and c) Certain Policies.

*Effect* – The purpose of the act was to help provide transparency for authorities. KLDC is not fully in compliance with the Act without these disclosures.

*Cause* – The management of KLDC was originally unsure whether the Act applied to them. Once it was determined that KLDC had to comply it has taken some time to put all of the policies and procedures in place. In addition, this was only the second year of reporting so staff were still learning the reporting requirements.

*Recommendation* – When inputting information for the current year, staff should be very careful to ensure that they have entered all required information including that for debt and real property. In addition, the board member approving the report should review for proper completion of those areas.

*Management’s Response* –Instructions for completion of reporting in PARIS will be reviewed to determine that information has been entered in all required screens and that appropriate responses have been included. In addition the board member that certifies the report should place particular emphasis on those areas that were noted above.

**STATUS OF PRIOR FINANCIAL STATEMENT FINDINGS**

Findings 2011-1 and 2011-2 have improved; however, they are repeated above.